

VILLAGE OF ONTONAGON
ONTONAGON COUNTY, MICHIGAN
FINANCIAL REPORT
WITH SUPPLEMENTAL INFORMATION

March 31, 2008

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Bruce A Rukkila, CPA, PC



310 Sheldon Avenue • Houghton MI 49931
(906) 482-6601 • Fax: (906) 482-9046
e-mail: help@brucerukkila.com
www.bruцерukkila.com

INDEPENDENT AUDITOR'S REPORT

Honorable President and Members of the Village Council
Village of Ontonagon
Ontonagon, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the Village of Ontonagon as of and for the year then ended March 31, 2008, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Ontonagon as of March 31, 2008, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 25, 2008 on our consideration of the Village of Ontonagon's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's discussion and analysis and budgetary comparison information on pages 6 through 12 and 35 through 36, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express any opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Village of Ontonagon's basic financial statements. The additional information on pages 38 to 50 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This additional information has been subject to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Bruce A. Rukkila, CPA, PC

Certified Public Accountants

September 25, 2008

This section of the Village of Ontonagon's annual Financial Report presents Management's Discussion and Analysis of the Village's financial activities during the fiscal year ended March 31, 2008. The analysis focuses on the Village's financial performance as a whole. It is intended to be read as part of the Village's financial statements, which immediately follows this section.

Financial Highlights

The Village of Ontonagon expended funds within budget at the end of the year. Total expenses for governmental activities totaled \$1.7 million. Total expenses for business-type activities totaled \$1.1 million. The year end fund balance for the General Fund was \$423,489.

Capital assets additions for this year totaled \$780,076, which included repairs to the Quartz Street Roof, installation of boilers, purchase of tax software, copier, street repairs to Houghton, Lakeshore, Parker and Seventh Avenues from MDOT grant funding, and repairs, equipment repairs and purchase, and capital improvements and repairs to the water system.

The Village reduced its debt by a total of \$308,262. A detail summary of the changes in the long-term debt for the year end is located on page 31 in the footnotes.

The Village transferred ownership of the Ontonagon Memorial Hospital to Aspirus, Inc. a private non-profit corporation. The corporation acquired all assets and liabilities of the hospital.

Overview of the Financial Statements

The annual report consists of a series of financial statements including other requirements as follows:

- Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the Village's financial activities.
- The Government-wide Financial Statements consists of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of the Village as a whole and represent an overall view of the Village's finances.

Statement of Net Assets and the Statement of Activities

These statements provide information that help determine how the Village is doing financially as a result of the year's activities. The statements are shown using a full accrual basis.

The Village's net assets and the changes in the net assets during the year are reported by these two statements. Increases or decreases in the Village's net assets is one way to determine if the financial position of the Village is improving or deteriorating. However, non-financial factors will need to be considered as well to determine the overall financial position of the Village.

There are two kinds of activities in the Statement of Net Assets and the Statement of Activities:

Governmental Activities - Most of the Village's basic services are reported here, including general administration, fire, public works, and parks and recreation. These activities are financed primarily by property taxes, intergovernmental revenues, and charges for services.

Overview of the Financial Statements - Continued

Major Funds: Under GASB Statement 34, the audit focus has shifted from governmental type funds to major funds. Major funds are the largest funds in terms of assets, liabilities, revenues or expenses/expenditures. This allows the reader to see more detailed activity of the major funds. For the Village of Ontonagon, the General Fund and Major Street Fund meet this requirement.

Non-major Funds: In the basic financial statements, non-major funds are consolidated into one column. These are smaller, less active funds. Detailed information about non-major funds can be found after the notes to the financial statements.

Business-Type Activities - The Village's sewer and water activities are reported here. A fee is charged to customers to help defray the cost of these services.

- Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. These statements also report the Village's operations in more detail than the Government-wide Financial Statements by providing information about the most significant funds.
- Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.
- Required supplementary information, other than Management Discussion and Analysis, provides information about the required budgetary comparison information.
- Other supplementary information provides detailed information about the General Fund, Special Revenue Funds, and Proprietary Funds.

Governmental Funds - The Village's basic services are mainly reported in this type of fund, which concentrates on how money goes into and out of those funds and the balances left at year end that are available for spending. Modified accrual accounting is the reporting method used for these funds. These statements provide a short-term view of the Village's general governmental operations and the basic services it provides in detail. Information in these statements help determine whether there are more or fewer financial resources that can be spent in the future to finance the Village's programs.

Governmental funds are essentially the same as the governmental activities with the exception that internal services are included in governmental activities but not as governmental funds. Governmental funds use a modified accrual basis of accounting and focus on near-term inflows and outflows of spendable resources and on the balances of spendable resources.

In governmental funds, capital outlay and debt principal are reported on the Statement of Revenues, Expenditures and Changes in Fund Balance and depreciation is not recorded. The rule for reporting accrued vacation is more restrictive. The Balance Sheet for governmental funds does not include any capital assets or long-term debt.

Overview of the Financial Statements - Continued

Proprietary Funds - Proprietary funds use a full accrual method of accounting for both government-wide statements and fund level statements. There are two types of proprietary funds.

Enterprise funds are used to report business like activities. In general, these funds charge a fee for their services. The Village uses enterprise funds for water and sewer. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. The Village's enterprise funds are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows for proprietary funds. All enterprise funds qualify as major funds.

Internal service funds provide services to other Village activities or functions. Internal service funds facilitate cost allocation of centralized services such as vehicle and equipment maintenance. The Village of Ontonagon Equipment Fund is the only internal service fund.

Component Units - The Downtown Development Authority component unit is a separate legal entity for which the Village has some level of financial accountability. This component unit is shown in a separate column. More information about the component units can be found in the notes to the financial statements.

The Village has another component unit, the Ontonagon Housing Commission. The Village is not financially accountable for the Housing Commission nor does it have a significant relationship. Therefore, the Housing Commission is not included as part of the Village reporting entity.

Summary of Net Assets

	Governmental Activities	Business-type Activities
Assets		
Current and other assets	\$ 1,702,859	\$ 846,783
Restricted investments	0	1,186,324
Capital assets - Net of accumulated depreciation	2,835,885	20,789,484
Total Assets	\$ 4,538,744	\$ 22,822,591
Liabilities		
Current liabilities	\$ 86,775	\$ 337,517
Long-term liabilities	857,292	9,048,862
Total Liabilities	944,067	9,386,379
Net Assets		
Invested in property and equipment - net of related debt	2,038,136	(100,766)
Contributed Capital	248,780	11,841,388
Restricted for debt service	0	693,601
Unrestricted	1,307,761	1,001,989
Total Net Assets	3,594,677	13,436,212
Total Liabilities and Net Assets	\$ 4,538,744	\$ 22,822,591

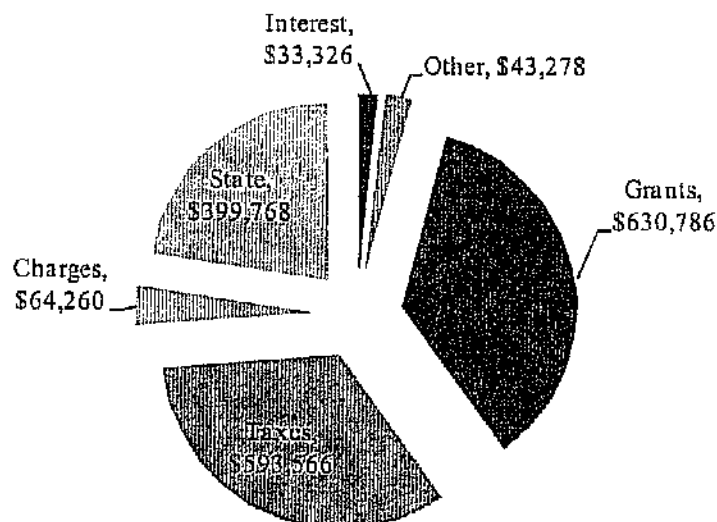
Village of Ontonagon
Management's Discussion and Analysis
March 31, 2008

Results of Operations

	Governmental Activities	Business-type Activities
<u>Revenues</u>		
Program Revenue:		
Charges for services	\$ 64,260	\$ 1,466,926
Grants and contributions	182,362	0
Capital grants and contributions	630,786	0
General Revenue:		
Property taxes	593,566	0
State shared revenue	176,926	0
Other	117,084	49,841
Total Revenue	1,764,984	1,516,767
<u>Functions/Program Expenses</u>		
General government	790,002	0
Public safety	95,382	0
Public works	559,518	1,005,945
Recreation and culture	77,164	0
Community services	15,551	0
Other	212,849	0
Total Expenses	1,750,466	1,005,945
Change in Net Assets	14,518	510,822
Net Assets - Beginning	3,580,159	12,925,390
Net Assets - Ending	\$ 3,594,677	\$ 13,436,212

The following two charts highlight the Village's governmental activities by revenues and expenses.

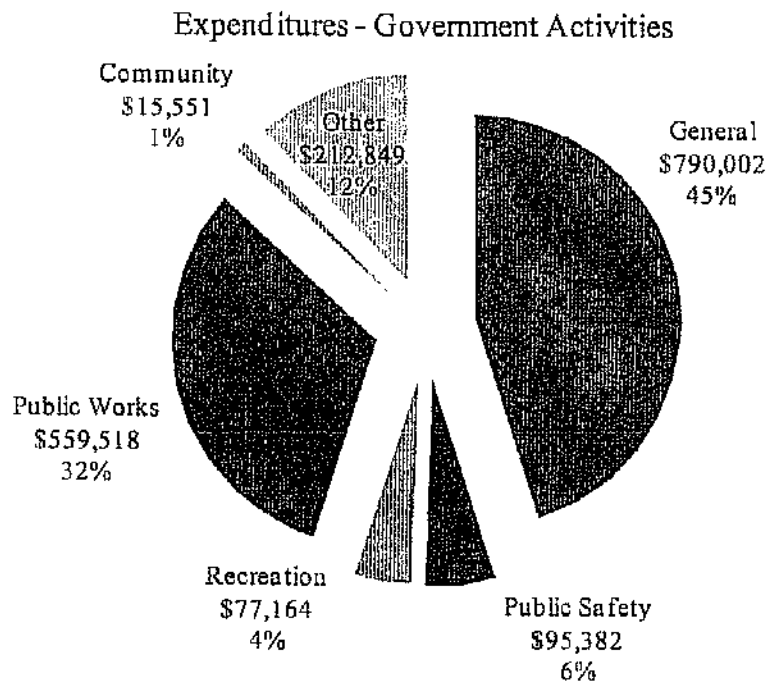
Revenues - Government Activities



**Village of Ontonagon
Management's Discussion and Analysis
March 31, 2008**

The most significant portions of the revenues for all governmental activities of the Village comes from grant revenue and property taxes. Grant revenue was received from federal and state sources for street repairs and rental rehabilitation. The Village's operating millage was 11 mills. The Village charter allows the Village to levy up to 20.0 mills for operations.

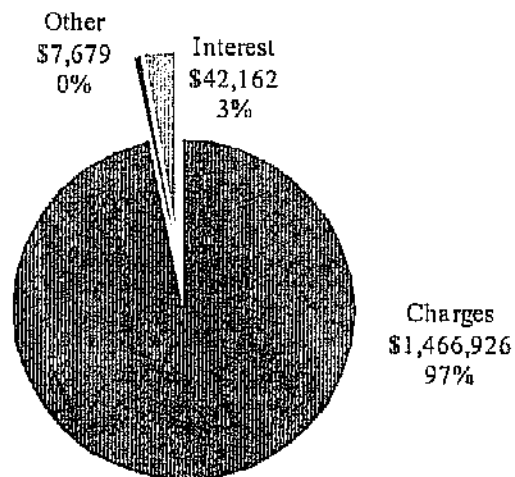
The state revenue represents state shared revenues and funds for the Major and Local Street Funds from the Michigan Transportation Fund.



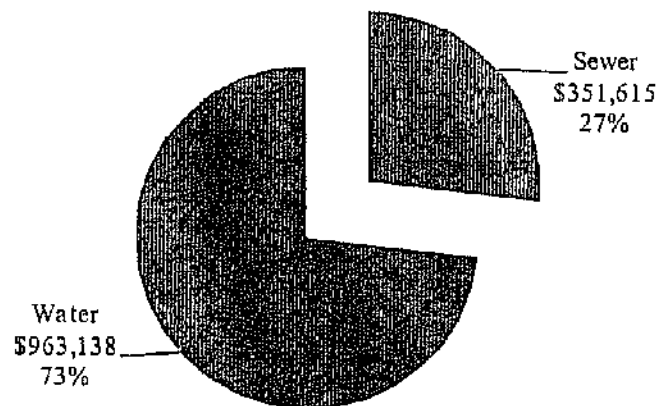
The general area expenses represent village hall activities. The major, local and road expenditures are included in the public works area, which includes street repairs to Houghton, Lakeshore, Parker and Seventh Avenues. Marina expenditures are included in recreation expenditures.

The following two charts highlight the Village's business-type activities by revenues and expenses.

Revenues - Enterprise Funds



Expenses - Enterprise Funds



**Village of Ontonagon
Management's Discussion and Analysis
March 31, 2008**

Financial Analysis

Governmental Funds: The focus of the Village's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the Village's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Village's governmental funds reported combined unreserved fund balances of \$1,264,407.

The General Fund is the main operating fund of the Village. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$423,489. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance to total fund expenditures. Unreserved fund balance represents 71% of total General Fund expenditures.

The fund balance of the Village's General Fund decreased by \$27,194 during the fiscal year. Key elements of this were decreases in property taxes and increases in the cost of employee benefits.

Proprietary Funds: The Village's proprietary funds provides the same type of information found in the government-wide financial statements, but in more detail.

Fund equity at the end of the year amounted to \$13,436,212. Of this amount \$12,090,168 is contributed capital from federal and state grants, net of amortization, \$693,601 is restricted for debt service.

Budgetary Highlights

During the year ended March 31, 2008, the Village amended the budget once. The amendment was done to cover unbudgeted expenditures. The amendments were mainly required to reconcile actual versus budgeted level effort required for various maintenance activities in the different funds.

Capital Assets and Debt Administration

The Village's investment in capital assets for the governmental and business-type activities as of March 31, 2008, amounts to \$31,810,100. This investment in capital assets including land, buildings, improvements, machinery and equipment. Additions to the general capital assets included repairs to Quartz Street building roof and boilers totaling \$30,916, office equipment and software in the amount of \$10,376 and street repairs in the amount of \$622,370 paid with State and Federal grants and Village funding. The water fund had capital repairs and improvements that totaled \$40,739 and equipment fund had additions of \$75,675 in major improvements to a grader and the purchase of 2001 International Skeeter total.

Additional information on the Village's capital assets can be found starting on page 26 of this report.

Long-term debt: At the end of the current fiscal year, the Village had total debt of \$9,662,075. This total amount is backed by the full faith and credit of the Village. The Village's total debt decreased by \$308,262 during the fiscal year.

Additional information on the Village's long-term debt can be found starting page 29 of this report.

Request for Information

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the Village's finances. If you have questions about this report or need additional information, contact the Village Manager at 315 Quartz Street, Ontonagon, Michigan 49953 or call 906-884-2305.

VILLAGE OF ONTONAGON
STATEMENT OF NET ASSETS

March 31, 2008

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
ASSETS:				
CURRENT ASSETS:				
Cash and cash equivalents	\$ 1,584,399	\$ 686,053	\$ 2,270,452	\$ 67,323
Receivables	70,505	166,289	236,794	46,780
Internal balances	17,350	(17,350)	-	-
Due from component unit	394	11,791	12,185	-
Due to primary government	-	-	-	15,536
Due from other governmental units	30,211	-	30,211	-
TOTAL CURRENT ASSETS	1,702,859	846,783	2,549,642	129,639
NONCURRENT ASSETS:				
Restricted cash	-	1,186,324	1,186,324	13,316
Capital assets	5,888,271	25,921,829	31,810,100	360,430
Less: accumulated depreciation	(3,052,386)	(5,132,345)	(8,184,731)	(27,956)
TOTAL NONCURRENT ASSETS	2,835,885	21,975,808	24,811,693	345,790
TOTAL ASSETS	\$ 4,538,744	\$ 22,822,591	\$ 27,361,335	\$ 475,429
LIABILITIES:				
CURRENT LIABILITIES:				
Accounts payable and accrued expenses	\$ 31,037	\$ 26,517	\$ 57,554	\$ 130
Due to component unit	15,536	-	15,536	-
Due to primary government	-	-	-	12,185
Advance receivable	10,000	-	10,000	-
Unfunded pension liabilities, current portion	25,940	-	25,940	1,147
Bonds payable, current maturities	4,262	311,000	315,262	-
TOTAL CURRENT LIABILITIES	86,775	337,517	424,292	13,462
NONCURRENT LIABILITIES:				
Bonds payable, less current maturities	297,951	9,048,862	9,346,813	-
Unfunded pension liability	496,816	-	496,816	223,728
Compensated absences	52,153	-	52,153	-
Deferred revenue	10,372	-	10,372	-
TOTAL NONCURRENT LIABILITIES	857,292	9,048,862	9,906,154	223,728
TOTAL LIABILITIES	944,067	9,386,379	10,330,446	237,190
NET ASSETS:				
Invested in capital assets, net of related debt	2,038,136	(100,766)	1,937,370	-
Contributed capital	248,780	11,841,388	12,090,168	-
Restricted for debt service	-	693,601	693,601	-
Unreserved	1,307,761	1,001,989	2,309,750	238,239
TOTAL NET ASSETS	3,594,677	13,436,212	17,030,889	238,239
TOTAL LIABILITIES AND NET ASSETS	\$ 4,538,744	\$ 22,822,591	\$ 27,361,335	\$ 475,429

The accompanying notes to financial statements are an integral part of this statement.

VILLAGE OF ONTONAGON
STATEMENT OF ACTIVITIES
March 31, 2008

FUNCTIONS/PROGRAMS	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating		Governmental Activities	Primary Government	
			Grants and Contributions	Capital Grants and Contributions		Business-Type Activities	Component Units
Primary government:							
Government activities:							
General government	\$ 790,002	\$ 2,030	\$ -	\$ -	\$ (787,972)	\$ -	\$ (787,972)
Public safety	95,382	-	-	-	(95,382)	-	(95,382)
Public works	559,518	254	-	630,786	71,522	-	71,522
Recreation and culture	77,164	61,976	-	-	(15,188)	-	(15,188)
Community services	15,551	-	-	-	(15,551)	-	(15,551)
Other	212,849	-	-	-	(212,849)	-	(212,849)
Total governmental activities	1,750,466	64,260	-	630,786	(1,055,420)	-	1,055,420
Business-type activities:							
Water	628,525	1,023,975	-	-	-	395,450	395,450
Sewer	377,420	442,951	-	-	-	65,531	65,531
Total business-type activities	1,005,945	1,466,926	-	-	-	460,981	460,981
Total primary government	2,756,411	1,531,186	-	630,786	(1,055,420)	460,981	(594,439)
Component units:							
DDA District	\$ 82,899	2,250	\$ 10	\$ -	-	-	(80,639)
Total component units	82,899	2,250	10	-	-	-	(80,639)
General Revenues:							
Property taxes, levied for general operations					593,566	-	593,566
State shared revenue					399,768	-	399,768
Interest and investment earnings					33,326	42,162	75,488
Gain on sale of assets					-	(374)	(374)
Other					43,278	8,053	51,331
Total general revenues, transfers, and special items					1,069,938	49,841	1,119,779
Change in Net Assets					14,518	510,822	525,340
Net Assets - Beginning					3,580,159	12,925,390	16,505,549
Net Assets - Ending					3,594,677	13,436,212	17,030,889

The accompanying notes to financial statements are an integral part of this statement.

VILLAGE OF ONTONAGON
BALANCE SHEET - GOVERNMENTAL FUNDS

March 31, 2008

	General Fund	Major Street Fund	Other Non-major Governmental Funds	Total Governmental Funds
ASSETS:				
CURRENT ASSETS:				
Cash and cash equivalents	\$ 385,628	\$ 286,212	\$ 555,315	\$ 1,227,155
Taxes receivable	20,065	-	50,440	70,505
Due from other funds	68,516	13,829	5,080	87,425
Due from component unit	370	12	12	394
Due from governmental units	-	21,240	8,971	30,211
TOTAL CURRENT ASSETS	<u>\$ 474,579</u>	<u>\$ 321,293</u>	<u>\$ 619,818</u>	<u>\$ 1,415,690</u>
LIABILITIES:				
CURRENT LIABILITIES:				
Accounts payable	\$ -	\$ 233	\$ 1,936	\$ 2,169
Accrued expenses	26,082	1,216	872	28,170
Advanced receivable	10,000	-	-	10,000
Due to other funds	15,008	-	70,028	85,036
Due to component units	-	-	15,536	15,536
Deferred revenue	-	-	10,372	10,372
TOTAL CURRENT LIABILITIES	<u>51,090</u>	<u>1,449</u>	<u>98,744</u>	<u>151,283</u>
FUND BALANCES:				
Unreserved	<u>423,489</u>	<u>319,844</u>	<u>521,074</u>	<u>1,264,407</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 474,579</u>	<u>\$ 321,293</u>	<u>\$ 619,818</u>	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	2,618,084
Internal service fund (Equipment Fund) is used to charge costs of equipment and operations to individual funds. The assets and liabilities are included in the governmental activities of the statement of net assets.	589,308
Long-term liabilities, including bonds payable are not due and payable in the current period and therefore are not reported in the funds.	<u>(877,122)</u>
Net assets of governmental activities	<u>\$ 3,594,677</u>

The accompanying notes to financial statements are an integral part of this statement.

VILLAGE OF ONTONAGON
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
Year Ended March 31, 2008

	General Fund	Major Street Fund	Non-major Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	\$ 354,147	\$ -	\$ 239,419	\$ 593,566
State revenue	176,926	164,601	58,241	399,768
Grant revenue	-	560,735	70,051	630,786
Charges for services	3,522	-	60,484	64,006
Interest	16,288	2,166	5,124	23,578
Other revenue	25,578	-	17,700	43,278
Total revenues	576,461	727,502	451,019	1,754,982
Expenditures:				
General government	243,128	-	-	243,128
Public safety	-	-	68,734	68,734
Public works	183,252	797,183	147,569	1,128,004
Recreation and culture	27,827	-	49,337	77,164
Community promotion	15,551	-	-	15,551
Other	128,897	-	83,952	212,849
Total expenditures	598,655	797,183	349,592	1,745,430
Excess (deficiency) of revenue over expenditures	(22,194)	(69,681)	101,427	9,552
Other Financing Sources (Uses)				
Operating transfers in	5,000	100,000	10,000	115,000
Operating transfers out	(10,000)	-	(105,000)	(115,000)
Total other financing sources (uses)	(5,000)	100,000	(95,000)	-
Net change in fund balance	(27,194)	30,319	6,427	9,552
Fund Balances - Beginning of Year	450,683	289,525	514,647	
Fund Balances - End of Year	\$ 423,489	\$ 319,844	\$ 521,074	
Amounts reported for governmental activities in the statement of activities are different because:				
Governmental funds do not record depreciation and report capital outlays as expenditures. This amount represents depreciation.				(484,508)
Repayment of loan principal is an expenditure in the governmental funds, but not in the statement of activities where it reduces long-term debt				(4,262)
Accrued expenses recorded in the statement of activities are not recorded as expenditures in the governmental funds until they are incurred.				(521,492)
Internal service fund (Equipment Fund) is used to charge costs of equipment and operations to individual funds. The net revenue (expense) is reported with governmental activities.				37,688
Change in net assets of governmental activities				\$ 14,518

The accompanying notes to financial statements are an integral part of this statement.

VILLAGE OF ONTONAGON
PROPRIETARY FUNDS
BALANCE SHEET
Year Ended March 31, 2008

	Business-Type Activities Enterprise Funds			Governmental Activities Internal Service Funds
	Sewer System	Water System	Total	
ASSETS:				
Current assets:				
Cash and cash equivalents	\$ 274,379	\$ 411,674	\$ 686,053	\$ 357,244
Accounts receivable	63,726	102,563	166,289	-
Due from other funds	-	23,022	23,022	15,118
Due from component unit	19	11,772	11,791	-
Total current assets	<u>338,124</u>	<u>549,031</u>	<u>887,155</u>	<u>372,362</u>
Restricted cash	<u>345,047</u>	<u>841,277</u>	<u>1,186,324</u>	<u>-</u>
Property, plant, and equipment	7,872,923	18,048,906	25,921,829	1,277,199
Accumulated depreciation & amortization	<u>(2,502,993)</u>	<u>(2,629,352)</u>	<u>(5,132,345)</u>	<u>(1,059,398)</u>
	<u>5,369,930</u>	<u>15,419,554</u>	<u>20,789,484</u>	<u>217,801</u>
TOTAL ASSETS	<u>\$ 6,053,101</u>	<u>\$ 16,809,862</u>	<u>\$ 22,862,963</u>	<u>\$ 590,163</u>
LIABILITIES:				
Current liabilities:				
Accounts payable	\$ 64	\$ 1,021	\$ 1,085	\$ -
Accrued expenses	10,778	10,089	20,867	698
Customer deposits	-	4,565	4,565	-
Due to other funds	25,254	15,118	40,372	157
Current maturities on long term debt	71,000	240,000	311,000	-
Total current liabilities	<u>107,096</u>	<u>270,793</u>	<u>377,889</u>	<u>855</u>
Long-term liabilities:				
Bonds/note payable	<u>2,800,000</u>	<u>6,248,862</u>	<u>9,048,862</u>	<u>-</u>
TOTAL LIABILITIES	<u>2,907,096</u>	<u>6,519,655</u>	<u>9,426,751</u>	<u>855</u>
FUND EQUITY:				
Contributed capital	<u>2,693,711</u>	<u>9,147,677</u>	<u>11,841,388</u>	<u>248,780</u>
Retained earnings:				
Reserved	335,034	358,567	693,601	-
Unreserved - Undesignated	<u>117,260</u>	<u>783,963</u>	<u>901,223</u>	<u>340,528</u>
Total retained earnings	<u>452,294</u>	<u>1,142,530</u>	<u>1,594,824</u>	<u>340,528</u>
TOTAL FUND EQUITY	<u>3,146,005</u>	<u>10,290,207</u>	<u>13,436,212</u>	<u>589,308</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 6,053,101</u>	<u>\$ 16,809,862</u>	<u>\$ 22,862,963</u>	<u>\$ 590,163</u>

The accompanying notes to financial statements are an integral part of this statement.

VILLAGE OF ONTONAGON
PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN RETAINED EARNINGS
Year Ended March 31, 2008

	Business-Type Activities Enterprise Funds			Governmental Activities Internal Service Funds
	Sewer System	Water System	Total	
OPERATING REVENUES:				
Sales and charges for services	\$ 436,674	\$ 1,014,718	\$ 1,451,392	\$ 198,485
Fines, forfeitures, and penalties	6,277	9,257	15,534	-
Other revenue	255	7,798	8,053	-
TOTAL OPERATING REVENUES	443,206	1,031,773	1,474,979	198,485
EXPENSES:				
Salaries, wages, and fringe benefits	44,171	241,327	285,498	37,921
Supplies, materials, and other	675	80,939	81,614	18,538
Repair and maintenance	439	7,433	7,872	20,205
Insurance	6,672	22,650	29,322	2,838
Utilities	32,135	50,925	83,060	14,855
Other services and support	6,045	31,911	37,956	575
Depreciation	254,967	364,739	619,706	75,613
TOTAL OPERATING EXPENSES	345,104	799,924	1,145,028	170,545
OPERATING INCOME (LOSS)	98,102	231,849	329,951	27,940
NON-OPERATING REVENUES (EXPENSES):				
Loss on disposal of assets	(374)	-	(374)	-
Interest income	10,363	31,799	42,162	9,748
Interest expense	(121,522)	(140,352)	(261,874)	-
TOTAL NON-OPERATING REVENUES (EXPENSES)	(111,533)	(108,553)	(220,086)	9,748
NET INCOME (LOSS)	(13,431)	123,296	109,865	37,688
RETAINED EARNINGS (DEFICIT), BEGINNING OF YEAR	376,519	707,483	1,084,002	302,840
ADJUSTMENTS TO FUND EQUITY:				
Add depreciation on contributed capital fixed assets	89,206	311,751	400,957	-
RETAINED EARNINGS (DEFICIT), END OF YEAR	\$ 452,294	\$ 1,142,530	\$ 1,594,824	\$ 340,528

The accompanying notes to financial statements are an integral part of this statement.

VILLAGE OF ONTONAGON
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
Year Ended March 31, 2008

	Business-Type Activities Enterprise Funds		Governmental Activities
	Sewer System	Water System	Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 418,762	\$ 1,000,778	\$ 254
Payments to suppliers	(41,844)	182,197	(58,127)
Internal activity -- receipts (payments) to other funds	(4,120)	22,329	198,231
Payments to employees	(44,571)	(243,256)	(37,223)
Other receipts (payments)	236	7,798	-
Net cash provided by operating activities	328,463	560,794	103,135
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Operating subsidies and transfers to other funds	(3,301)	(2,539)	54
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Capital contributions	1	-	-
Purchases of capital assets	-	(40,739)	(91,132)
Principal paid on capital debt	(69,000)	(235,000)	-
Interest paid on capital debt	(121,522)	(140,352)	-
Net cash (used) by capital and related financing activities	(190,523)	(416,091)	(91,132)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest and dividends	10,363	31,799	9,748
Net cash provided by investing activities	10,363	31,799	9,748
Net (decrease) in cash and cash equivalents	145,002	179,041	21,805
Balances -- beginning of the year	474,424	1,073,910	335,439
Balances -- end of the year	\$ 619,426	\$ 1,252,951	\$ 357,244
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating income (loss)	\$ 98,102	\$ 231,849	\$ 27,940
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation expense	254,967	364,739	75,613
Changes in assets and liabilities:			
Receivables, net	(24,189)	(22,201)	-
Accounts and other payables	(17)	(11,664)	(1,116)
Accrued expenses	(400)	(1,929)	698
Net cash provided by operating activities	\$ 328,463	\$ 560,794	\$ 103,135

The accompanying notes to financial statements are an integral part of this statement.

VILLAGE OF ONTONAGON
NOTES TO FINANCIAL STATEMENTS - MARCH 31, 2008

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Village of Ontonagon, Michigan, conform to generally accepted accounting principles for local governmental units as prescribed by the Governmental Accounting Standards Board and the American Institute of Certified Public Accountants. The following is a summary of the more significant policies:

REPORTING ENTITY

The Village of Ontonagon is incorporated under the laws of the State of Michigan and operates under an elected council form of government.

As required by generally accepted accounting principles, the financial statements of the reporting entity include those of the Village of Ontonagon (the primary government) and its component units. The component units discussed below are included in the Village's reporting entity because of the significance of their operational or financial relationships with the Village. The criteria and guidelines of Governmental Accounting Standards Board Statement Number 14 *The Reporting Entity* are utilized to determine that all applicable entities are included in the combined financial statements of the Village. The primary criterion for inclusion is the degree of oversight responsibility over such entities by the Village's elected officials. This responsibility includes financial interdependency, selection of governing authority, selection of management, ability to significantly influence operations, and accountability for fiscal matters. Additional criteria that are considered even if there is no significant oversight responsibility are an entity's scope of public service and special financing relationships between a particular agency and the reporting entity.

Based upon the application of these criteria, the following is a brief review of each potential component unit addressed in defining the government's reporting entity:

Downtown Development Authority - the Downtown Development Authority (DDA) is a separate legal entity; however, the Village is financially accountable for the DDA. Therefore, the DDA is included with the Village financial statements using the "discrete presentation method."

Ontonagon Housing Commission - the Village is not financially accountable for the Housing Commission nor does it have a significant relationship. Therefore, the Housing Commission is not included as part of the Village reporting entity.

The Ontonagon Housing Commission is audited separately by another auditor. These audits are under separate cover. Copies of these audits may be obtained from the Ontonagon Village manager.

DISCRETELY PRESENTED COMPONENT UNITS

The combined financial statements include the financial data of the Village's component unit, the Downtown Development Authority (DDA). This unit is reported in a separate column to emphasize that it is legally separate from the Village.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

Government-Wide Financial Statements - The statement of net assets and the statement of activities display information about the Village as a whole. These statements distinguish between activities that are governmental and those that are considered business-type. These statements exclude fiduciary activities such as pension and agency funds.

VILLAGE OF ONTONAGON
NOTES TO FINANCIAL STATEMENTS - MARCH 31, 2008

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting as further defined under proprietary funds below. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements of governmental funds.

The government-wide statement of activities presents a comparison between expenses and program revenues for each different identifiable activity of the business-type activities of the Village and for each governmental program. Expenses are those that are specifically associated with a service or program and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Revenues which are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each function is self-financing or draws from the general revenues of the Village.

Internal activity is limited to interfund transfers which are eliminated to avoid "doubling up" revenues and expenses. Net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net assets restricted for other purposes result from special revenue and capital projects and the restrictions on their net asset use.

Fund Financial Statements - Fund financial statements report detailed information about the Village. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. The two major governmental funds are each presented in a single column on the governmental fund financial statements.

The Village reports the following major governmental funds:

General Fund - The General Fund is the government's primary operating fund. It is used to account for all financial resources of the general government, except those required to be accounted for in another fund.

Road Fund - This fund is accounting for the roads and streets activities from tax generated revenue.

Fire Fund - Fire protection activities major revenue source is property tax revenue from Village and Ontonagon Township.

Additionally, the Village reports the following non-major governmental funds: Major Street, Local Street, Fire, Marina, and Rental Rehab.

Enterprise Funds - Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided the periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The Water and Sewer Funds are enterprise type funds.

Internal Service Funds - Internal Service Funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the Village or to other governments, on a cost reimbursement basis. The Village maintains one Internal Service Fund, which is the Equipment Fund.

VILLAGE OF ONTONAGON
NOTES TO FINANCIAL STATEMENTS - MARCH 31, 2008

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accrual Method

The government-wide financials statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Modified Accrual Method

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Village considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is incurred.

Property taxes, state revenue, and interest associated with the current fiscal period are all considered to susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Village.

Other Accounting Policies

Cash and Cash Equivalents - The Village's cash and cash equivalents include checking, money market, certificates of deposits, and savings accounts.

The Village reports its investments in accordance with GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools and No. 40, Deposits and Investment Risk Disclosures. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is capital, and the Village intends to hold the investment until maturity. Accordingly, investments in banker acceptances and commercial paper are recorded at amortized cost.

State statutes authorize the Village to invest in U.S. government obligations, certificates of deposit, commercial paper, repurchase agreements, bankers acceptances, and with some restrictions, mutual funds. An Attorney General's opinion states that public funds may not be deposited in financial institutions located in states other than Michigan. The Village does have an investment policy that meets state statutory regulations.

Restricted assets - Certain cash accounts are classified as restricted assets on the balance sheet because their use is limited. In the Enterprise Fund, the "Bond Requirements" accounts are used for the payment of current debt obligations.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds."

All receivables, including property taxes receivable, are shown net of allowance for uncollectibles.

VILLAGE OF ONTONAGON
NOTES TO FINANCIAL STATEMENTS - MARCH 31, 2008

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property Taxes - Property taxes are levied on July 1. The Village collects its own property taxes until September 14, at which time collection is turned over to Ontonagon County for collection.

The tax rate to finance general Village government services for the year ended March 31, 2008, was \$11.00 per \$1,000 of taxable value. At July 1, 2007 taxable valuation was \$34,944,493 which computed to \$377,269 taxes levied. Additional millage was levied county-wide for road improvements which amounted to \$163,523 for the Village Road Fund.

Capital Assets - Capital assets, which include land, buildings, equipment, site improvements, and vehicles are reported in the applicable governmental activities column in the district-wide financial statements. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. All costs relating to the construction of facilities are capitalized, including salaries, employee benefits, and bond interest costs. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair & maintenance that do not add to the value or materially extend asset lives are not capitalized.

Depreciation on property and equipment is computed using the straight-line method over the estimated useful lives of the related assets.

Buildings and additions	20-50 Years
Vehicles and equipment	5-10 Years
Furniture and other	5-10 Years

Fund Equity - The unreserved fund balances for governmental funds represent the amount available for budgeting future operations. Unreserved retained earnings for proprietary funds represent the net assets available for future operations or distributions. Reserved fund balance for governmental funds represent that portion of fund equity which has been legally segregated for specific purposes and/or does not constitute current available spendable resources. Reserved retained earnings for proprietary funds represent the net assets that have been legally identified for specific purposes.

Contributed capital - The Village follows the policy of reducing contributed capital in the equipment, water, and sewer fund for an amount equal to the yearly depreciation on assets acquired or constructed with such contributed capital. This policy is based on the premise that future replacement of these facilities will be funded by the users who benefit from the facilities and not current users through the current rate structure. At March 31, 2008, Federal, State and Local contributed capital of \$13,891,422 has been reduced by an aggregate of \$2,050,034. The current year amortization is \$400,957.

Inventory - Inventory is valued at cost as determined on the first-in, first-out method for the Water Fund. All other funds the Village utilizes the purchase method of recording inventories of materials and supplies. Under the purchase method, inventories are recorded as expenditures when they are purchased.

Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Encumbrances - Encumbrances are defined as commitments related to unperformed contracts for goods and services. The Village does not record encumbrances in the normal course of operating its accounting system and none are recorded in the accompanying financial statements.

Compensated Absences - The liability for compensated absences reported in the government-wide statements consist of unpaid sick leave balances. As of March 31, 2008, accrued unpaid sick pay totaled \$52,153. Accrued sick time is payable upon termination of employment or retirement.

VILLAGE OF ONTONAGON
NOTES TO FINANCIAL STATEMENTS – MARCH 31, 2008

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Long-term Obligations - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

NOTE B - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

- a. In February, the Village Manager submits to the Village Council a proposed operating budget for the fiscal year commencing the following April 1. The operating budget includes proposed expenditures and the means of financing them.
- b. A public hearing is conducted to obtain taxpayer comments.
- c. Prior to April 1, the budget is legally enacted by resolution.
- d. The Village Manager is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the Village Council.
- e. Formal budgetary integration is employed as a management control device during the year for the General Fund and Special Revenue Funds.
- f. Budgets for the General and Special Revenue Funds are adopted on a basis consistent with generally accepted accounting principles.

All budget appropriations lapse at year end. Budgetary amounts reported herein are as originally adopted, or as amended by the Village council throughout the operating year.

In accordance with the State of Michigan Budgeting and Accounting Act, the Village must adopt an annual operating budget for the General and Special Revenue Funds.

In the body of the financial statements, the Village's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. Violations, if any, for the general fund are noted in the required supplementary information section.

NOTE C - CASH AND CASH EQUIVALENTS

Primary Government

At year-end, the Village's cash deposits (checking, savings and certificates of deposit) were reported in the basic financial statements in the following categories:

	Governmental Activities	Proprietary Funds	Total Primary Government
Cash	\$ 1,584,399	\$ 1,872,377	\$ 3,456,776

Credit Risk - State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investments pools as identified in the list of authorized investments below. The Village's investment policy does not have specific limits in excess of state law on investment credit risk. The rating for each investment are identified above for investments held at year end.

VILLAGE OF ONTONAGON
NOTES TO FINANCIAL STATEMENTS - MARCH 31, 2008

NOTE C - CASH AND CASH EQUIVALENTS (Continued)

Custodial Credit Risk - Deposits - In the case of deposits, this is the risk that in the event of a bank failure, the Village's deposits may not be returned to it. State law does not require and the Village does not have a policy for deposit custodial credit risk. As of March 31, 2008, \$2,657,529 of the Village's bank balance of \$3,465,392 was exposed to custodial credit risk because it was uninsured and collateralized.

Michigan law authorizes the Village to deposit and invest in:

- a. Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State. In a primary or fourth class Village, the bonds, bill or notes shall be payable at the option of the holder upon not more than 90 days notice or, if not so payable, shall have maturity dates not more than 5 years after the purchase dates.
- b. Certificates of deposits issued by the State or national bank, savings accounts of a state or federal savings and loan association, or certificates of deposit or share certificates of a state or federal credit union organized and authorized to operate in this State.
- c. Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
- d. Securities issued or guaranteed by agencies or instrumentalities of the United States, United States government or federal agency obligation repurchase agreements, and bankers' acceptance issued by a bank that is a member of the federal deposit insurance corporation.
- e. Mutual funds composed entirely of investment vehicles that are legal for direct investment by a Village.
- f. Investment pools, as authorized by the surplus funds investment pool act, composed entirely of instruments that are legal for direct investment by a Village. The Village will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the Village will do business.

Component Unit

Downtown Development Authority - At March 31, 2008, the book value of demand deposits, consisting primarily of checking and certificates of deposit, was \$80,639. One hundred percent (100%) of the deposits are insured by the Federal Deposit Insurance Corp. (FDIC) at March 31, 2008, per FDIC regulation number 330.8.

NOTE D - TRANSFERS AND INTERFUND BALANCES

For the year then ended, interfund transfers consisted of the following:

<u>Fund</u>	<u>Transfer Out</u>	<u>Fund</u>	<u>Transfer In</u>
General	\$ 10,000	General	\$ 5,000
Road Fund	105,000	Major Street	100,000
		Marina	10,000
TOTALS	<u>\$ 115,000</u>	TOTALS	<u>\$ 115,000</u>

The transfers from the General Fund and other non-major governmental funds to the Major and Local Street Funds and other non-major governmental funds represents the use of unrestricted resources to finance these programs, in accordance with budgetary authorizations.

VILLAGE OF ONTONAGON
NOTES TO FINANCIAL STATEMENTS - MARCH 31, 2008

NOTE D - TRANSFERS AND INTERFUND BALANCES (Continued)

The amounts of interfund balances at March 31, 2008 are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General	\$ 68,516	Road	\$ 44,410
		Marina	3,791
		Rental Rehab	100
		Local Street	14,592
		Equipment	157
		Fire	2,055
		Sewer	3,411
Subtotal	68,516	Subtotal	68,516
Major Street	13,829	General	13,829
Fire	5,080	Road	5,080
Water	23,022	General	1,179
		Sewer	21,843
Subtotal	23,022	Subtotal	23,022
Equipment	15,118	Water Fund	15,118
TOTALS	\$ 125,565	TOTALS	\$ 125,565

NOTE E - RECEIVABLES

The detail of receivables at March 31, 2008 are as follows:

<u>Receivables</u>	<u>General</u>	<u>Special Revenue</u>	<u>Enterprise</u>	<u>Total Primary Government</u>
Accounts	\$ 0	\$ 0	\$ 166,289	\$ 166,289
Taxes	20,065	50,440	0	70,505
Total receivables	\$ 20,065	\$ 50,440	\$ 166,289	\$ 236,794

NOTE F - CAPITAL ASSETS

Capital Asset activity of the Village's governmental activities was as follows:

	<u>Beginning</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending</u>
Land	\$ 718,885	\$ 0	\$ 0	\$ 718,885
Land improvements	14,080	0	0	14,080
Building and additions	1,586,622	30,916	0	1,617,538
Equipment and furniture	922,212	15,964	300	937,876
Vehicles	658,858	70,087	21,000	707,945
Roads and streets	1,269,577	622,370	0	1,891,947
Subtotal	5,170,234	\$ 739,337	\$ 21,300	5,888,271
Accumulated depreciation:				
Land improvements	293	704	0	997
Building and additions	808,958	42,244	0	851,202
Equipment and furniture	726,322	48,473	300	774,495
Vehicles	445,993	51,896	21,000	476,889
Roads and streets	852,810	95,993	0	948,803
Subtotal	2,834,376	\$ 239,310	\$ 21,300	3,052,386
Net capital assets	\$ 2,335,858			\$ 2,835,885

VILLAGE OF ONTONAGON
NOTES TO FINANCIAL STATEMENTS - MARCH 31, 2008

NOTE F - CAPITAL ASSETS (Continued)

Depreciation expense was charged to governmental activities of the Village as follows:

General Fund	\$	41,056
Equipment Fund		75,613
Major Streets Fund		92,016
Local Streets Fund		3,977
Fire Fund		26,332
Marina Fund		316
	\$	<u>239,310</u>

The components of property, plant, and equipment in Village proprietary funds at March 31, 2008 are summarized as follows:

SEWER FUND		Beginning	Additions	Deletions	Ending
Buildings	\$	5,554	\$ 0	\$ 0	\$ 5,554
Equipment		39,959	0	12,808	27,151
Land improvements		16,533	0	0	16,533
Vehicles		3,315	0	3,315	0
Utility system		7,823,685	0	0	7,823,685
Subtotal		<u>7,889,046</u>	<u>\$ 0</u>	<u>\$ 16,123</u>	<u>7,872,923</u>
Accumulated depreciation:					
Buildings		1,180	\$ 185	\$ 0	1,365
Equipment		35,887	2,466	12,435	25,918
Land improvements		2,849	0	0	2,849
Vehicles		3,315	0	3,315	0
Utility system		2,220,546	252,315	0	2,472,861
Subtotal		<u>2,263,777</u>	<u>\$ 254,966</u>	<u>\$ 15,750</u>	<u>2,502,993</u>
Net capital assets	\$	<u>5,625,269</u>			<u>\$ 5,369,930</u>

WATER FUND		Beginning	Additions	Deletions	Ending
Buildings	\$	240,426	\$ 0	\$ 0	\$ 240,426
Equipment		57,816	0	8,349	49,467
Land		20,000	0	0	20,000
Lines		17,646,233	40,739	0	17,686,972
Vehicles		59,193	0	7,152	52,041
Subtotal		<u>18,023,668</u>	<u>\$ 40,739</u>	<u>\$ 15,501</u>	<u>18,048,906</u>
Accumulated depreciation:					
Buildings		230,819	\$ 4,809	\$ 0	235,628
Equipment		43,225	5,824	8,349	40,700
Lines		1,964,853	349,931	0	2,314,784
Vehicles		41,217	4,175	7,152	38,240
Subtotal		<u>2,280,114</u>	<u>\$ 364,739</u>	<u>\$ 15,501</u>	<u>2,629,352</u>
Net capital assets	\$	<u>15,743,554</u>			<u>\$ 15,419,554</u>

VILLAGE OF ONTONAGON
NOTES TO FINANCIAL STATEMENTS - MARCH 31, 2008

NOTE F - CAPITAL ASSETS (Continued)

EQUIPMENT FUND		Beginning	Additions	Deletions	Ending
Equipment		\$ 707,203	\$ 5,587	\$ 300	\$ 712,490
Buildings		0	15,458	0	15,458
Vehicles		500,163	70,088	21,000	549,251
Subtotal		1,207,366	91,133	21,300	1,277,199
Accumulated depreciation:					
Equipment		564,381	\$ 38,899	\$ 299	602,981
Buildings		0	687	0	687
Vehicles		440,703	36,027	21,000	455,730
Subtotal		1,005,084	75,613	21,299	1,059,398
Net capital assets		\$ 202,282			\$ 217,801

NOTE G - RESERVES AND RESTRICTED ASSETS - PROPRIETARY FUNDS

Sewer Fund - The ordinance authorizing issuance of the 1996 and 1997 Sanitary Sewage Disposal System Revenue Bonds required that specific accounts be established and monies deposited as follows:

Bond and Interest Reserve Account - Quarterly transfers are to be made equal to ½ of the next interest payment due plus ¼ of the next principal payment due.

Bond Reserve Account - Excess funds of up to \$4,850 per quarter are to be transferred to this account until \$194,000 is accumulated.

Water Fund - The ordinance authorizing issuance of the 2004 General Obligation Limited Tax Bonds, require that a Bond Reserve Account be established and quarterly transfers to be made equal to ½ of the next interest payment due plus ¼ of the next principal payment due. In addition, the repair, replacement and improvement account will continue to be maintained.

At March 31, 2008, the Village had established these accounts and had restricted cash, as required, as follows:

	REQUIREMENTS			Amount Funded in Restricted Cash Balance
	March 31, 2007	Additions (deletions)	March 31, 2008	
SEWER FUND				
Bond and interest reserve account	\$ 16,750	\$ 500	\$ 17,250	\$ 141,034
Bond reserve account	193,225	775	194,000	194,000
	<u>209,975</u>	<u>1,275</u>	<u>211,250</u>	<u>335,034</u>
WATER FUND				
Bond debt retirement fund	167,557	481	168,038	358,567
	<u>\$ 377,532</u>	<u>\$ 1,756</u>	<u>\$ 379,288</u>	<u>\$ 693,601</u>

VILLAGE OF ONTONAGON
NOTES TO FINANCIAL STATEMENTS – MARCH 31, 2008

NOTE H - LONG-TERM DEBT

ENTERPRISE FUNDS

1996 Sanitary Sewage Disposal System Revenue Bonds - On October 2, 1996, the Village of Ontonagon authorized the sale of Sanitary Sewage Disposal System Revenue Bonds in the amount of \$3,000,000. The bonds were issued with an interest rate of 4.5% per annum with principal amounts payable September 1 and interest payable semi-annually on September 1 and March 1.

Repayment of principal and interest in bi-annual payments summarized by year is as follows:

Year Ended March	Principal September	Interest		Total
		September	March	
2009	\$ 46,000	\$ 58,973	\$ 57,982	\$ 162,955
2010	47,000	57,983	56,947	161,930
2011	50,000	56,948	55,890	162,838
2012	52,000	55,890	54,765	162,655
2013	55,000	54,765	53,595	163,360
2014	56,000	53,595	52,357	161,952
2015	60,000	52,358	51,097	163,455
2016	62,000	51,098	49,747	162,845
2017	65,000	49,748	48,352	163,100
2018-2022	370,000	226,508	218,520	815,028
2023-2027	457,000	183,038	173,206	813,244
2028-2032	574,000	129,107	116,754	819,861
2033-2037	712,000	61,560	43,377	816,937
	<u>\$ 2,606,000</u>	<u>\$ 1,091,571</u>	<u>\$ 1,032,589</u>	<u>\$ 4,730,160</u>

1997 Sanitary Sewage Disposal System Revenue Bonds - On June 26, 1997, the Village of Ontonagon authorized the sale of Sanitary Sewage Disposal System Revenue Bonds in the amount of \$493,143. The bonds were issued at an interest rate of 2.25% per annum with principal amounts payable October 1 and interest payable semi-annually on April 1 and October 1.

Year Ended March 31	Interest		Principal October	Total
	April	October		
2009	\$ 3,017	\$ 3,017	\$ 25,000	\$ 31,034
2010	2,735	2,735	25,000	30,470
2011	2,454	2,454	25,000	29,908
2012	2,173	2,173	25,000	29,346
2013	1,892	1,892	25,000	28,784
2014	1,610	1,610	25,000	28,220
2015	1,329	1,329	30,000	32,658
2016	992	992	30,000	31,984
2017	654	654	55,000	56,308
TOTALS	<u>\$ 16,856</u>	<u>\$ 16,856</u>	<u>\$ 265,000</u>	<u>\$ 298,712</u>

VILLAGE OF ONTONAGON
NOTES TO FINANCIAL STATEMENTS – MARCH 31, 2008

NOTE H - LONG-TERM DEBT (Continued)

2004 Water Bonds - On June 14, 2004, the Village of Ontonagon refunded the Water Supply System Revenue Bond with the Michigan Municipal Bond Authority in the amount of \$7,370,000. The bonds were issued at an interest rate of 2.125% per annum with principal amounts payable October 1 and interest payable semi-annually on October 1 and April 1.

Year Ended March 31	Interest		Principal	Total
	April	October	October	
2009	\$ 72,557	\$ 72,557	\$ 240,000	\$ 385,114
2010	70,538	70,538	240,000	381,076
2011	68,466	68,466	240,000	376,932
2012	66,341	66,341	240,000	372,682
2013	64,216	64,216	240,000	368,432
2014	62,038	62,038	240,000	364,076
2015	59,807	59,807	245,000	364,614
2016	57,522	57,522	245,000	360,044
2017	55,185	55,185	245,000	355,370
2018-2022	202,983	202,983	1,240,000	1,645,966
2023-2027	136,683	136,683	1,260,000	1,533,366
2028-2032	69,109	69,109	1,290,000	1,428,218
2033-2034	8,370	8,370	523,862	540,602
TOTALS	<u>\$ 993,815</u>	<u>\$ 993,815</u>	<u>\$ 6,488,862</u>	<u>\$ 8,476,492</u>

LONG-TERM DEBT ACCOUNT GROUP

1998 Loan of Federal Funds - Payable to Michigan Jobs Commission - In 1998, the Village of Ontonagon entered into a \$315,000 loan contract with the Michigan Jobs Commission for the purpose of Renaissance Zone Industrial Park. The loan has been amended to a non-interest loan and extension of the project to March 31, 2008. The debt (up to 90%) will be forgiven at the rate of \$20,000 for each qualifying net new job created and added to the existing job base. Adjustment for new jobs created will be done at the end of the project period. Principal payments have been set at \$1,065.57 per quarter.

Year	Principal
2009	\$ 4,262
2010	4,262
2011	4,262
2012	4,262
2013	4,262
2014	4,262
2015	4,262
2016	4,262
2017-2021	268,117
TOTAL	<u>\$ 302,213</u>

VILLAGE OF ONTONAGON
NOTES TO FINANCIAL STATEMENTS – MARCH 31, 2008

NOTE H - LONG-TERM DEBT (Continued)

The aggregate amount of maturities on long-term debt for Enterprise Funds:

Year Ended	Principal	Interest	Total
2009	\$ 311,000	\$ 268,103	\$ 579,103
2010	312,000	261,476	573,476
2011	315,000	254,678	569,678
2012	317,000	247,683	564,683
2013	320,000	240,576	560,576
2014	321,000	233,248	554,248
2015	335,000	225,727	560,727
2016	337,000	217,873	554,873
2017	365,000	209,778	574,778
2018-2022	1,610,000	850,994	2,460,994
2023-2027	1,717,000	629,610	2,346,610
2028-2032	1,864,000	384,079	2,248,079
2033-2037	1,235,862	121,677	1,357,539
	<u>\$ 9,359,862</u>	<u>\$ 4,145,502</u>	<u>\$ 13,505,364</u>

The following is a summary of the changes in the long-term debt for the year ended March 31, 2008:

	Balance 03/31/07	Increase	Decrease	Balance 03/31/08	Current Maturities
1996 Sanitary Sewage Bonds	\$ 2,650,000	\$ 0	\$ 44,000	\$ 2,606,000	\$ 46,000
1997 Sanitary Sewage Bonds	290,000	0	25,000	265,000	25,000
2003 Water Bonds	<u>6,723,862</u>	<u>0</u>	<u>235,000</u>	<u>6,488,862</u>	<u>240,000</u>
Sub-Total Enterprise Funds	<u>9,663,862</u>	<u>0</u>	<u>304,000</u>	<u>9,359,862</u>	<u>311,000</u>
Michigan Jobs Commission	306,475	0	4,262	302,213	4,262
Accrued Sick Leave	<u>53,417</u>	<u>0</u>	<u>1,264</u>	<u>52,153</u>	<u>0</u>
TOTAL	<u>\$ 10,023,754</u>	<u>\$ 0</u>	<u>\$ 309,526</u>	<u>\$ 9,714,228</u>	<u>\$ 315,262</u>

NOTE I - SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The Village maintains two Enterprise Funds which provide sewer and water services. Segment information for the year ended March 31, 2008 is as follows:

	Sewer	Water
Operating Revenues	\$443,206	\$1,031,773
Depreciation	\$254,967	\$364,739
Operating Income (Loss)	\$98,102	\$231,849
Non-operating Revenue (Expense)	(\$111,534)	(\$108,553)
Net Income (Loss)	(\$13,432)	\$123,296
Property, Plant, and Equipment:		
Additions	\$0	\$40,739
Deletions	\$16,123	\$15,501
Net Working Capital (Deficit)	\$231,028	\$278,238
Total Assets	\$6,053,101	\$16,809,862
Total Equity	\$3,146,005	\$10,290,207

VILLAGE OF ONTONAGON
NOTES TO FINANCIAL STATEMENTS – MARCH 31, 2008

NOTE J - PENSION PLANS

Plan Description: The Village's defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The Village participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the MERS Retirement Board. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefits provisions of the participants in MERS. The Municipal Employees Retirement system of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 1134 Municipal Way, Lansing, Michigan 48917, by calling (800) 767-6377 or at <http://www.mersofmich.com>.

Funding Policy: The Village is required to contribute to the plan at an actuarially determined rate. The current rate, as a percent of annual covered payroll, is 15.45% for general employees and 13.19% for administrative employees. Village employees are not required to contribute. The contribution requirements of the Village are established and may be amended by the Retirement Board of MERS. The contribution requirements of plan members are established and may be amended by the Village, depending on the MERS contribution program adopted by the Village.

Annual Pension Cost: For the year ended March 31, 2008, the Village's required and actual pension cost was \$71,624. The annual required contribution percentage was determined as a part of the actuarial valuation on December 31, 2007, using the entry age normal cost method. Significant actuarial assumptions used include a net investment rate of return on assets of 8 percent per year compounded annually, projected salary increases of 4.5 percent per year compounded annually due to inflation, and additional projected salary increases ranging from 0 to 4.5 percent per year depending on an age to reflect merit and longevity. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. Any unfunded actuarial liability is amortized by a level percent of payroll contributions over a period of 30 years.

Three-year Trend Information:

<u>Fiscal Year Ended March 31</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Annual pension cost (APC)	\$ 66,460	\$ 67,378	\$ 71,624
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ 0	\$ 0	\$ 0

	<u>Valuation as of December 31</u>		
	<u>2005</u>	<u>2006</u>	<u>2007</u>
Actuarial value of assets	\$1,810,035	\$ 1,911,089	\$14,283,972
Actuarial accrued liability (entry age)	\$2,484,826	\$ 2,549,264	\$15,491,408
Unfunded actuarial liability (UAAL)	\$ 674,791	\$ 638,175	\$ 1,207,436
Funded ratio	73%	75%	92%
Covered payroll	\$ 346,410	\$ 362,620	\$ 363,831
UAAL as a percentage of covered payroll	169%	152%	286%

Ontonagon Memorial Hospital became a private entity as of November 1, 2007. Liabilities and assets associated with the former members of Division 3 of Ontonagon Memorial Hospital were transferred to the Village. The unfunded accrued liability of the plan as of December 31, 2007 was \$522,756.

The Village's liability will be reduced with monthly payments of \$2,549 starting May 31, 2008. MERS will be sending monthly invoices for this liability.

VILLAGE OF ONTONAGON
NOTES TO FINANCIAL STATEMENTS – MARCH 31, 2008

NOTE K - DEFERRED COMPENSATION PLAN

The employees of the Village are allowed to contribute on a voluntary basis to a deferred compensation plan through payroll deductions. The plan is made available to all eligible employees by authority of Section 457 of the Internal Revenue Code (IRC), and is administered by PEBSCO. Employees may set aside and invest portions of their current income to meet their financial requirements and supplement their retirement and social security benefits.

Due to changes in the Internal Revenue Code, the Plan's assets are considered to be the property of the Plan's participants and are no longer subject to the Village's general creditors. Also, as the Village relies on a third party for administration and investment management of the plan, the Village is no longer required to report the 457 plan assets on its financial statements.

NOTE L - COMPONENT UNIT

Downtown Development Authority (DDA) - As discussed in Note A concerning the reporting entity, the DDA is considered a component unit of the Village of Ontonagon for financial reporting purposes.

The DDA has a loan with Ontonagon County for the Speculation Building. The balance at March 31, 2008 was \$224,875. A detail of the of the debt schedule is located on page 56.

NOTE M - RISK MANAGEMENT

The Village is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Village manages its liability workers' compensation and property risk, by participating in Michigan Municipal Risk Management Authority Liability and Property Pool, a public entity risk pool providing property and liability coverage to its participating members. The Village pays an annual premium for its insurance coverage. The Michigan Municipal Risk Management Authority Liability and Property Pool is self-sustaining through member premiums and provides, subject to certain deductibles, occurrence-based casualty coverage for each incident and occurrence-based property coverage to its members by internally assuring certain risks and reinsuring risks through commercial companies. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

NOTE N - CONTINGENT LIABILITIES

Solid-Waste Landfill

The Village was an operator of a municipal solid-waste landfill which was closed in 1987. The Village has not recorded or recognized any costs or liability for the landfill post-closure care requirements. Village engineers have estimated the landfill clean-up cost to be approximately \$350,000.

The Village is seeking financial assistance from the State of Michigan (the landowner) and from Ontonagon County in connection with this matter.

NOTE O - COMMITMENTS AND CONTINGENCIES

The Village is in the process of negotiating a land contract with the Ontonagon County Historical Society in the amount of \$57,000. The Ontonagon County Historical Society as of March 31, 2008 made a good faith deposit in the amount of \$10,000. The deposit of these funds show as an advance receivable in general fund.

REQUIRED SUPPLEMENTAL FINANCIAL INFORMATION

VILLAGE OF ONTONAGON
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
For the Year Ended March 31, 2008

	Budgeted Amounts		Actual (GAAP Basis)	Variance Final to Actual
	Original	Final		
REVENUES:				
Local sources	\$ 313,850	\$ 313,850	\$ 399,535	\$ 85,685
State sources	182,000	182,000	176,926	(5,074)
TOTAL REVENUE	495,850	495,850	576,461	80,611
EXPENDITURES:				
General government				
Board/Council/Legislative	24,400	24,400	16,665	7,735
Executive/Manager	34,533	34,533	42,299	(7,766)
Village Office	49,700	49,700	49,291	409
Chamber Building	1,610	1,610	1,359	251
Clerk	19,830	19,830	16,866	2,964
Treasurer	7,020	7,020	3,965	3,055
Legal, accounting, and audit	37,275	37,275	111,241	(73,966)
Assessor	1,800	1,800	1,442	358
Public safety	15,700	15,700	-	15,700
Public works	176,000	176,000	183,252	(7,252)
Recreation and culture	51,175	51,175	27,827	23,348
Community promotion	59,800	59,800	15,551	44,249
Other	190,500	190,500	128,897	61,603
TOTAL EXPENDITURES	669,343	669,343	598,655	70,688
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(173,493)	(173,493)	(22,194)	151,299
OTHER FINANCING SOURCES (USES)				
Operating transfers in	5,000	5,000	5,000	-
Transfer to component unit	-	-	-	-
Operating transfers out	(10,000)	(10,000)	(10,000)	-
NET CHANGE IN FUND BALANCE	\$ (178,493)	\$ (178,493)	(27,194)	\$ 151,299
FUND BALANCE - BEGINNING OF YEAR			450,683	
FUND BALANCE - END OF YEAR			\$ 423,489	

VILLAGE OF ONTONAGON
BUDGETARY COMPARISON SCHEDULE - MAJOR STREET FUND
For the Year Ended March 31, 2008

	Budgeted Amounts		Actual	Variance
	Original	Final	(GAAP Basis)	Final to Actual
REVENUES:				
State revenue	\$ 152,000	\$ 152,000	\$ 164,601	\$ 12,601
Grant revenue	654,500	654,500	560,735	(93,765)
Interest	1,000	1,000	2,166	1,166
TOTAL REVENUE	807,500	807,500	727,502	(79,998)
EXPENDITURES:				
Salaries, wages and fringe benefits	122,052	122,052	78,139	43,913
Supplies, materials, and other	16,650	16,650	21,838	(5,188)
Other services and support	882,075	882,075	697,206	184,869
TOTAL EXPENDITURES	1,020,777	1,020,777	797,183	223,594
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(213,277)	(213,277)	(69,681)	143,596
OTHER FINANCING SOURCES (USES)				
Operating transfers out	100,000	100,000	100,000	-
NET CHANGE IN FUND BALANCE	\$ (113,277)	\$ (113,277)	30,319	\$ 143,596
FUND BALANCE - BEGINNING OF YEAR			289,525	
FUND BALANCE - END OF YEAR			\$ 319,844	

SUPPLEMENTAL FINANCIAL INFORMATION

VILLAGE OF ONTONAGON
GENERAL FUND
BALANCE SHEETS
March 31, 2008
With Comparative Totals at March 31, 2007

	<u>2008</u>	<u>2007</u>
ASSETS:		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 385,628	\$ 459,726
Taxes receivable	20,065	20,370
Due from other funds	68,516	52,582
Due from component unit	370	2,091
TOTAL CURRENT ASSETS	<u>\$ 474,579</u>	<u>\$ 534,769</u>
LIABILITIES:		
CURRENT LIABILITIES:		
Accounts payable	\$ -	\$ 7,430
Accrued expenses	26,082	27,873
Due to other funds	15,008	48,783
Advance receivable	10,000	-
TOTAL CURRENT LIABILITIES	<u>51,090</u>	<u>84,086</u>
FUND BALANCES:		
Unreserved	<u>423,489</u>	<u>450,683</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 474,579</u>	<u>\$ 534,769</u>

VILLAGE OF ONTONAGON
GENERAL FUND
STATEMENTS OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
Year Ended March 31, 2008
With Comparative Actual Amounts for Year Ended March 31, 2007

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>	<u>2007</u>
REVENUES:				
Current taxes:				
Property Taxes	\$ 303,800	\$ 342,584	\$ (38,784)	\$ 378,916
Payments in lieu of tax	1,500	7,569	(6,069)	7,756
Administration fees	4,000	3,994	6	4,185
Total current taxes	<u>309,300</u>	<u>354,147</u>	<u>(44,847)</u>	<u>390,857</u>
State Shared Revenue	<u>182,000</u>	<u>176,926</u>	<u>5,074</u>	<u>178,840</u>
Grant revenue	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,000</u>
Charges for services	<u>1,300</u>	<u>3,522</u>	<u>(2,222)</u>	<u>18,084</u>
Interest	<u>3,000</u>	<u>16,288</u>	<u>(13,288)</u>	<u>11,342</u>
Other revenue:				
Refunds/reimbursements	-	23,227	(23,227)	33,902
Miscellaneous	250	1,998	(1,748)	3,173
Health services payments from retirees	-	353	(353)	57,012
Total other revenue	<u>250</u>	<u>25,578</u>	<u>(25,328)</u>	<u>94,087</u>
TOTAL REVENUES	<u>495,850</u>	<u>576,461</u>	<u>(80,611)</u>	<u>703,210</u>
EXPENDITURES:				
General Government:				
Board/Council/Legislative:				
Salaries, wages, and fringe benefits	14,000	12,111	1,889	11,626
Supplies, materials, and other	600	377	223	326
Other services and support	<u>9,800</u>	<u>4,177</u>	<u>5,623</u>	<u>6,085</u>
Total board/council/legislative	<u>24,400</u>	<u>16,665</u>	<u>7,735</u>	<u>18,037</u>
Village Manager:				
Salaries, wages, and fringe benefits	22,833	28,387	(5,554)	23,134
Supplies, materials, and other	500	3,679	(3,179)	34
Insurance	500	1,200	(700)	-
Utilities	500	233	267	415
Other services and support	<u>10,200</u>	<u>8,800</u>	<u>1,400</u>	<u>8,339</u>
Total executive/manager	<u>34,533</u>	<u>42,299</u>	<u>(7,766)</u>	<u>31,922</u>

VILLAGE OF ONTONAGON
GENERAL FUND
STATEMENTS OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL (CONTINUED)

Year Ended March 31, 2008

With Comparative Actual Amounts for Year Ended March 31, 2007

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>	<u>2007</u>
Village Office:				
Salaries, wages, and fringe benefits	12,200	11,805	395	11,766
Supplies, materials, and other	10,100	8,871	1,229	9,775
Insurance	5,500	8,102	(2,602)	100
Utilities	5,500	6,088	(588)	5,834
Other services and support	2,400	2,080	320	2,984
Capital outlay	14,000	12,345	1,655	4,823
Total village office	<u>49,700</u>	<u>49,291</u>	<u>409</u>	<u>35,282</u>
Chamber Building	<u>1,610</u>	<u>1,359</u>	<u>251</u>	<u>1,270</u>
Clerk:				
Salaries, wages, and fringe benefits	17,330	15,105	2,225	14,834
Supplies, materials, and other	700	508	192	358
Insurance	1,000	1,000	-	-
Other services and support	800	253	547	450
Total clerk	<u>19,830</u>	<u>16,866</u>	<u>2,964</u>	<u>15,642</u>
Treasurer:				
Salaries, wages, and fringe benefits	4,785	3,930	855	3,806
Supplies, materials, and other	1,500	-	1,500	-
Other services and support	735	35	700	35
Total treasurer	<u>7,020</u>	<u>3,965</u>	<u>3,055</u>	<u>3,841</u>
Legal, accounting, and audit	<u>37,275</u>	<u>111,241</u>	<u>(73,966)</u>	<u>9,577</u>
Assessor	<u>1,800</u>	<u>1,442</u>	<u>358</u>	<u>1,195</u>
Elections:				
Total general government	<u>176,168</u>	<u>243,128</u>	<u>(66,960)</u>	<u>116,766</u>
Public Safety:				
Building Inspection:				
Supplies, materials, and other	700	-	700	-
Other services and support	15,000	-	15,000	2,462
Fire Protection:				
Salaries, wages, and fringe benefits	-	-	-	1,800
Supplies, materials, and other	-	-	-	5,131
Insurance	-	-	-	100
Utilities	-	-	-	9,655
Other services and support	-	-	-	9,078

VILLAGE OF ONTONAGON
GENERAL FUND
STATEMENTS OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL (CONTINUED)
Year Ended March 31, 2008
With Comparative Actual Amounts for Year Ended March 31, 2007

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>	<u>2007</u>
Fire Protection: (Continued)				
Capital outlay	-	-	-	136
Total public safety	<u>15,700</u>	<u>-</u>	<u>15,700</u>	<u>28,362</u>
Public Works:				
Department of Public Works:				
Salaries, wages, and fringe benefits	57,500	59,161	(1,661)	47,776
Supplies, materials, and other	14,500	13,778	722	13,526
Insurance	9,000	11,719	(2,719)	926
Utilities	500	400	100	135
Other services and support	22,500	20,345	2,155	18,101
Capital outlay	<u>20,000</u>	<u>20,094</u>	<u>(94)</u>	<u>148</u>
Total department of public works	<u>124,000</u>	<u>125,497</u>	<u>(1,497)</u>	<u>80,612</u>
Street lighting	<u>52,000</u>	<u>57,755</u>	<u>(5,755)</u>	<u>36,433</u>
Total public works	<u>176,000</u>	<u>183,252</u>	<u>(7,252)</u>	<u>117,045</u>
Recreation and Culture (Parks):				
Salaries, wages, and fringe benefits	6,675	1,834	4,841	3,407
Supplies, materials, and other	4,000	4,363	(363)	1,769
Insurance	1,000	1,500	(500)	-
Repairs and maintenance	4,000	-	4,000	-
Utilities	30,500	18,599	11,901	26,451
Other services and support	<u>5,000</u>	<u>1,531</u>	<u>3,469</u>	<u>5,435</u>
Total recreation and culture	<u>51,175</u>	<u>27,827</u>	<u>23,348</u>	<u>37,062</u>
Community Promotion:				
Supplies, materials, and other	2,000	624	1,376	4,956
Utilities	1,300	258	1,042	163
Other services and support	29,000	14,669	14,331	40,909
Capital outlay	<u>27,500</u>	<u>-</u>	<u>27,500</u>	<u>13,856</u>
Total community promotion	<u>59,800</u>	<u>15,551</u>	<u>44,249</u>	<u>59,884</u>

VILLAGE OF ONTONAGON
GENERAL FUND
STATEMENTS OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL (CONTINUED)
Year Ended March 31, 2008
With Comparative Actual Amounts for Year Ended March 31, 2007

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>	<u>2007</u>
Other:				
Debt principal payments	15,750	4,262	11,488	8,525
Insurance and fringe benefits	174,750	124,635	50,115	245,887
Total other	190,500	128,897	61,603	254,412
TOTAL EXPENDITURES	669,343	598,655	70,688	613,531
EXCESS OF REVENUES OVER EXPENDITURES	(173,493)	(22,194)	(151,299)	89,679
OTHER FINANCING SOURCES (USES):				
Operating transfers in	5,000	5,000	-	5,000
Transfer to component unit	-	-	-	50,000
Operating transfers out	(10,000)	(10,000)	-	(144,000)
TOTAL OTHER FINANCING SOURCES (USES):	(5,000)	(5,000)	-	(189,000)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	<u>\$ (178,493)</u>	(27,194)	<u>\$ (151,299)</u>	(99,321)
FUND BALANCE, BEGINNING OF YEAR		450,683		550,004
FUND BALANCE, END OF YEAR		<u>\$ 423,489</u>		<u>\$ 450,683</u>

VILLAGE OF ONTONAGON
SPECIAL REVENUE FUNDS
BALANCE SHEETS

March 31, 2008

With Comparative Totals at March 31, 2007

	Major Street	Local Street	Road	Fire	Marina	Rehab	Totals (Memorandum Only)	
							2008	2007
ASSETS:								
Cash and cash equivalents	\$ 286,212	\$ 242,899	\$ 141,114	\$ 90,606	\$ 75,448	\$ 5,248	\$ 841,527	\$ 761,273
Taxes receivable	-	-	49,760	680	-	-	50,440	38,522
Due from other funds	13,829	-	-	5,080	-	-	18,909	44,688
Due from component unit	12	12	-	-	-	-	24	-
Due from other governmental units	21,240	8,971	-	-	-	-	30,211	29,953
Total assets	\$ 321,293	\$ 251,882	\$ 190,874	\$ 96,366	\$ 75,448	\$ 5,248	\$ 941,111	\$ 874,436

LIABILITIES:

Accounts payable	\$ 233	\$ 157	\$ -	\$ -	\$ 1,779	\$ -	\$ 2,169	\$ 4,407
Accrued expenses	1,216	872	-	-	-	-	2,088	1,228
Deferred revenue	-	-	-	-	10,372	-	10,372	12,343
Due to component unit	-	-	15,536	-	-	-	15,536	-
Due to other funds	-	14,592	49,490	2,055	3,791	100	70,028	54,315
Total liabilities	1,449	15,621	65,026	2,055	15,942	100	100,193	72,293

FUND EQUITY:

Fund Balance - Unreserved	319,844	236,261	125,848	94,311	59,506	5,148	840,918	802,143
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TOTAL LIABILITIES AND FUND EQUITY

	\$ 321,293	\$ 251,882	\$ 190,874	\$ 96,366	\$ 75,448	\$ 5,248	\$ 941,111	\$ 874,436
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VILLAGE OF ONTONAGON
SPECIAL REVENUE FUNDS
COMBINING STATEMENTS OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES

March 31, 2008

With Comparative Actual Amounts for Year Ended March 31, 2007

	Major Street	Local Street	Road	Fire	Marina	Rehab	Totals (Memorandum Only)	
							2008	2007
REVENUES:								
Current taxes	\$ -	\$ -	\$ 144,974	\$ 94,445	\$ -	\$ -	\$ 239,419	\$ 231,364
State revenue	164,601	58,241	-	-	-	-	222,842	194,015
Charges for services	-	-	-	-	60,484	-	60,484	48,386
Grant revenue	560,735	-	8,475	-	-	56,699	625,909	523,333
Interest	2,166	2,002	1,015	1,614	493	-	7,290	5,365
Other revenue	-	134	1,438	5,000	-	11,128	17,700	26,471
Total revenues	727,502	60,377	155,902	101,059	60,977	67,827	1,173,644	1,028,934
EXPENDITURES:								
Salaries, wages, and fringe benefits	78,139	58,234	-	-	17,759	-	154,132	104,165
Supplies, materials, and other	21,838	22,504	782	24,724	16,642	-	86,490	340,049
Other services and support	697,206	58,068	1,075	44,010	14,936	83,952	899,247	454,664
Total expenditures	797,183	138,806	1,857	68,734	49,337	83,952	1,139,869	898,878
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(69,681)	(78,429)	154,045	32,325	11,640	(16,125)	33,775	130,056
OTHER FINANCING SOURCES (USES):								
Operating transfers in (out)	100,000	-	(105,000)	-	10,000	-	5,000	50,290
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	30,319	(78,429)	49,045	32,325	21,640	(16,125)	38,775	180,346
FUND BALANCE, BEGINNING OF YEAR	289,525	314,690	76,803	61,986	37,866	21,273	802,143	621,797
FUND BALANCE, END OF YEAR	\$ 319,844	\$ 236,261	\$ 125,848	\$ 94,311	\$ 59,506	\$ 5,148	\$ 840,918	\$ 802,143

VILLAGE OF ONTONAGON
CAPITAL PROJECT - M64 PROJECT
BALANCE SHEETS

March 31, 2008

With Comparative Totals at March 31, 2007

	<u>2008</u>	<u>2007</u>
ASSETS:		
Cash and cash equivalents	\$ -	\$ 86
Accounts receivable	<u>-</u>	<u>4,790</u>
TOTAL ASSETS	<u>\$ -</u>	<u>\$ 4,876</u>
LIABILITIES:		
Due to other funds	\$ -	\$ 2,847
TOTAL LIABILITIES	<u>-</u>	<u>2,847</u>
FUND EQUITY:		
Fund Balance	<u>-</u>	<u>2,029</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ -</u>	<u>\$ 4,876</u>

VILLAGE OF ONTONAGON
CAPITAL PROJECT - M64 PROJECT
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
Year Ended March 31, 2008
With Comparative Totals at March 31 2007

	Totals	
	(Memorandum Only)	
	2008	2007
REVENUES:		
Grant revenue	\$ 4,877	\$ 24,075
Total revenues	<u>4,877</u>	<u>24,075</u>
EXPENDITURES:		
Public works	<u>6,906</u>	<u>22,046</u>
Total expenditures	<u>6,906</u>	<u>22,046</u>
Excess (deficiency) of revenue over expenditures	<u>(2,029)</u>	<u>2,029</u>
Fund Balances - Beginning of Year	<u>2,029</u>	<u>-</u>
Fund Balances - End of Year	<u>\$ -</u>	<u>\$ 2,029</u>

VILLAGE OF ONTONAGON**ENTERPRISE FUNDS****BALANCE SHEETS****March 31, 2008****With Comparative Totals at March 31, 2007**

	Sewer Disposal System	Water Supply System	Totals (Memorandum Only)	
			2008	2007
ASSETS:				
Current assets:				
Cash and cash equivalents	\$ 274,379	\$ 411,674	\$ 686,053	\$ 469,880
Accounts receivable	63,726	102,563	166,289	119,899
Due from other funds	-	23,022	23,022	37,230
Due from component unit	19	11,772	11,791	-
Total current assets	338,124	549,031	887,155	627,009
Restricted cash	345,047	841,277	1,186,324	1,078,454
Property, plant, and equipment	7,872,923	18,048,906	25,921,829	25,912,715
Accumulated depreciation & amortization	(2,502,993)	(2,629,352)	(5,132,345)	(4,543,890)
	5,369,930	15,419,554	20,789,484	21,368,825
TOTAL ASSETS	\$ 6,053,101	\$ 16,809,862	\$ 22,862,963	\$ 23,074,288
LIABILITIES:				
Current liabilities:				
Accounts payable	\$ 64	\$ 1,021	\$ 1,085	\$ 11,751
Accrued expenses	10,778	10,089	20,867	23,196
Customer deposits	-	4,565	4,565	5,561
Due to other funds	25,254	15,118	40,372	43,570
Current maturities on long term debt	71,000	240,000	311,000	304,000
Total current liabilities	107,096	270,793	377,889	388,078
Long-term liabilities:				
Bonds payable	2,800,000	6,248,862	9,048,862	9,359,862
TOTAL LIABILITIES	2,907,096	6,519,655	9,426,751	9,747,940
FUND EQUITY:				
Contributed capital	2,693,711	9,147,677	11,841,388	12,242,346
Retained earnings:				
Reserved	335,034	358,567	693,601	839,034
Unreserved - Undesignated	117,260	783,963	901,223	244,968
Total retained earnings	452,294	1,142,530	1,594,824	1,084,002
TOTAL FUND EQUITY	3,146,005	10,290,207	13,436,212	13,326,348
TOTAL LIABILITIES AND FUND EQUITY	\$ 6,053,101	\$ 16,809,862	\$ 22,862,963	\$ 23,074,288

VILLAGE OF ONTONAGON
ENTERPRISE FUNDS
COMBINING STATEMENTS OF REVENUES, EXPENSES,
AND CHANGES IN RETAINED EARNINGS
March 31, 2008
With Comparative Totals at March 31, 2007

	Sewer Disposal System	Water Supply System	Totals (Memorandum Only)	
			2008	2007
OPERATING REVENUES:				
Sales and charges for services	\$ 436,674	\$ 1,014,718	\$ 1,451,392	\$ 1,341,977
Fines, forfeitures, and penalties	6,277	9,257	15,534	14,856
Other revenue	255	7,798	8,053	22,209
TOTAL OPERATING REVENUES	443,206	1,031,773	1,474,979	1,379,042
EXPENSES:				
Salaries, wages, and fringe benefits	44,171	241,327	285,498	308,540
Supplies, materials, and other	675	80,939	81,614	74,177
Repair and maintenance	439	7,433	7,872	11,604
Insurance	6,672	22,650	29,322	1,200
Utilities	32,135	50,925	83,060	73,003
Other services and support	6,045	31,911	37,956	56,124
Depreciation	254,967	364,739	619,706	517,724
TOTAL OPERATING EXPENSES	345,104	799,924	1,145,028	1,042,372
OPERATING INCOME (LOSS)	98,102	231,849	329,951	336,670
NON-OPERATING REVENUES (EXPENSES):				
Loss on disposal of assets	(374)	-	(374)	-
Interest income	10,363	31,799	42,162	30,676
Interest expense	(121,522)	(140,352)	(261,874)	(272,381)
Operating transfers in	-	-	-	100,000
TOTAL NON-OPERATING REVENUES (EXPENSES)	(111,533)	(108,553)	220,086	(141,705)
NET INCOME (LOSS)	(13,431)	123,296	109,865	194,965
RETAINED EARNINGS (DEFICIT), BEGINNING OF YEAR	376,519	707,483	1,084,002	648,462
ADJUSTMENTS TO FUND EQUITY:				
Add depreciation on contributed capital fixed assets	89,206	311,751	400,957	240,575
RETAINED EARNINGS (DEFICIT), END OF YEAR	\$ 452,294	\$ 1,142,530	\$ 1,594,824	\$ 1,084,002

VILLAGE OF ONTONAGON
EQUIPMENT FUND
BALANCE SHEETS
March 31, 2008
With Comparative Totals at March 31, 2007

	<u>2008</u>	<u>2007</u>
ASSETS:		
Cash and cash equivalents	\$ 357,244	\$ 335,439
Due from other funds	15,118	15,015
Property, plant, and equipment	1,277,199	1,207,366
Accumulated depreciation & amortization	<u>(1,059,398)</u>	<u>(1,005,084)</u>
TOTAL ASSETS	<u>\$ 590,163</u>	<u>\$ 552,736</u>
LIABILITIES:		
Accounts payable	\$ -	\$ 1,116
Accrued expenses	698	-
Due to other funds	<u>157</u>	<u>-</u>
TOTAL LIABILITIES	<u>855</u>	<u>1,116</u>
FUND EQUITY:		
Contributed capital	248,780	248,780
Retained earnings	<u>340,528</u>	<u>302,840</u>
TOTAL FUND EQUITY	<u>589,308</u>	<u>551,620</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 590,163</u>	<u>\$ 552,736</u>

VILLAGE OF ONTONAGON
EQUIPMENT FUND
DETAIL STATEMENTS OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE
Year Ended March 31, 2008
With Comparative Actual Amounts for Year Ended March 31, 2007

	<u>2008</u>	<u>2007</u>
OPERATING REVENUES:		
Equipment rental	\$ 198,485	\$ 183,447
EXPENSES:		
Salaries, wages, and fringe benefits	37,921	43,440
Supplies, materials, and other	18,538	16,183
Repair and maintenance	20,205	39,527
Insurance	2,838	-
Utilities	14,855	17,788
Other services and support	575	525
Depreciation	<u>75,613</u>	<u>96,005</u>
Total expenses	<u>170,545</u>	<u>213,468</u>
OPERATING INCOME	<u>27,940</u>	<u>(30,021)</u>
NON-OPERATING REVENUES (EXPENSES):		
Interest income	9,748	8,424
Interest expense	-	(654)
Operating transfers out	<u>-</u>	<u>11,290</u>
Total non-operating revenues (expenses)	<u>9,748</u>	<u>(3,520)</u>
NET INCOME (LOSS)	37,688	(33,541)
RETAINED EARNINGS, BEGINNING OF YEAR	<u>302,840</u>	<u>336,381</u>
RETAINED EARNINGS, END OF YEAR	<u>\$ 340,528</u>	<u>\$ 302,840</u>

DEBT SCHEDULES

VILLAGE OF ONTONAGON - DEBT SCHEDULES
LONG-TERM DEBT ACCOUNT GROUP

1998 Loan of Federal Funds - Payable to Michigan Jobs Commission

Date of Loan: 1998 - Change of effective date with Amendment #5 March 31, 2008
 Purpose: Renaissance Zone Industrial Park

Original Loan Amount: \$315,000
 Interest Rate: 0% - Changed with Amendment #4 January 17, 2006
 Term: Maximum term - 20 years with no interest. The debt (up to 90%) will be forgiven at the rate of \$20,000 for each qualifying net new job created and added to the existing job base.

Adjustment for new jobs created will be done at the end of the project period.

Year Ended March	Principal
2006	\$ 4,262
2007	4,263
2008	4,262
2009	4,262
2010	4,262
2011	4,262
2012	4,262
2013	4,262
2014	4,262
2015	4,262
2016	4,262
2017	4,262
2018	4,262
2019	4,262
2020	255,331
	<u>\$ 315,000</u>

VILLAGE OF ONTONAGON - DEBT SCHEDULES
ENTERPRISE FUNDS

1996 Sanitary Sewage Disposal System Revenue Bonds

Date of Loan: October 2, 1996 Original Loan Amount: \$3,000,000
Interest Rate: 4.5% Term: 40 years

Repayment of principal and interest in bi-annual payments summarized by year is as follows:

Year Ended March	Principal September	Interest		Total
		September	March	
2002	\$ 35,000	\$ 64,823	\$ 64,102	\$ 163,925
2003	35,000	64,103	63,315	162,418
2004	37,000	63,315	62,527	162,842
2005	39,000	62,528	61,695	163,223
2006	40,000	61,695	60,817	162,512
2007	42,000	60,818	59,917	162,735
2008	44,000	59,918	58,972	162,890
2009	46,000	58,973	57,982	162,955
2010	47,000	57,983	56,947	161,930
2011	50,000	56,948	55,890	162,838
2012	52,000	55,890	54,765	162,655
2013	55,000	54,765	53,595	163,360
2014	56,000	53,595	52,357	161,952
2015	60,000	52,358	51,097	163,455
2016	62,000	51,098	49,747	162,845
2017	65,000	49,748	48,352	163,100
2018	68,000	48,353	46,890	163,243
2019	70,000	46,890	45,360	162,250
2020	74,000	45,360	43,785	163,145
2021	78,000	43,785	42,120	163,905
2022	80,000	42,120	40,365	162,485
2023	83,000	40,365	38,565	161,930
2024	87,000	38,565	36,698	162,263
2025	92,000	36,698	34,740	163,438
2026	95,000	34,740	32,670	162,410
2027	100,000	32,670	30,533	163,203
2028	104,000	30,533	28,283	162,816
2029	110,000	28,283	25,943	164,226
2030	115,000	25,943	23,468	164,411
2031	120,000	23,468	20,880	164,348
2032	125,000	20,880	18,180	164,060
2033	130,000	18,180	15,366	163,546
2034	136,000	15,366	12,442	163,808
2035	142,000	12,443	9,382	163,825
2036	149,000	9,383	6,187	164,570
2037	155,000	6,188	-	161,188
	<u>\$ 2,878,000</u>	<u>\$ 1,528,771</u>	<u>\$ 1,463,934</u>	<u>\$ 5,870,705</u>

VILLAGE OF ONTONAGON – DEBT SCHEDULES
ENTERPRISE FUNDS

1997 Sanitary Sewage Disposal System Revenue Bonds

Date of Loan:	June 26, 1997	Original Loan Amount: \$493,143
Interest Rate:	2.25%	Term: 20 years

Repayment of principal and interest in bi-annual payments summarized by year is as follows:

Year Ended March 31	Interest		Principal	Total
	April	October	October	
2003	\$ 4,648	\$ 4,648	\$ 20,000	\$ 29,296
2004	4,423	4,423	25,000	33,846
2005	4,141	4,141	25,000	33,282
2006	3,860	3,860	25,000	32,720
2007	3,579	3,579	25,000	32,158
2008	3,298	3,298	25,000	31,596
2009	3,017	3,017	25,000	31,034
2010	2,735	2,735	25,000	30,470
2011	2,454	2,454	25,000	29,908
2012	2,173	2,173	25,000	29,346
2013	1,892	1,892	25,000	28,784
2014	1,610	1,610	25,000	28,220
2015	1,329	1,329	30,000	32,658
2016	992	992	30,000	31,984
2017	654	654	55,000	56,308
TOTALS	\$ 40,805	\$ 40,805	\$ 410,000	\$ 491,610

VILLAGE OF ONTONAGON – DEBT SCHEDULES
ENTERPRISE FUNDS

2004 Water Bonds - Michigan Municipal Bond Authority

Date of Loan: June 24, 2004 Original Loan Amount: \$7,368,862.
Interest Rate: 2.125% Term: 30 years

Repayment of principal and interest in bi-annual payments summarized by year is as follows:

Year Ended March 31	Interest		Principal	Total
	April	October	October	
2005	\$ 0	\$ 36,972	\$ 175,000	\$ 211,972
2006	76,435	76,435	235,000	387,870
2007	73,938	73,938	235,000	382,876
2008	71,441	71,441	235,000	377,882
2009	68,944	68,944	240,000	377,888
2010	66,394	66,394	240,000	372,788
2011	63,844	63,844	240,000	367,688
2012	61,294	61,294	240,000	362,588
2013	58,744	58,744	240,000	357,488
2014	56,194	56,194	240,000	352,388
2015	53,644	53,644	245,000	352,288
2016	51,041	51,041	245,000	347,082
2017	48,438	48,438	245,000	341,876
2018	45,835	45,835	245,000	336,670
2019	43,232	43,232	245,000	331,464
2020	40,628	40,628	250,000	331,256
2021	37,972	37,972	250,000	325,944
2022	35,316	35,316	250,000	320,632
2023	32,660	32,660	250,000	315,320
2024	30,003	30,003	250,000	310,006
2025	27,347	27,347	250,000	304,694
2026	24,691	24,691	255,000	304,382
2027	21,982	21,982	255,000	298,964
2028	19,272	19,272	255,000	293,544
2029	16,563	16,563	255,000	288,126
2030	13,854	13,854	260,000	287,708
2031	11,091	11,091	260,000	282,182
2032	8,329	8,329	260,000	276,658
2033	5,566	5,566	260,000	271,132
2034	2,804	2,804	263,862	269,470
TOTALS	\$ 1,167,496	\$ 1,204,468	\$ 7,368,862	\$ 9,740,826

VILLAGE OF ONTONAGON - DEBT SCHEDULES
DOWNTOWN DEVELOPMENT AUTHORITY

2005 EDC Ontonagon County Loan (DDA Speculation Building)

Date of Loan: April 19, 2005 Original Loan Amount: \$265,756
Interest Rate: 3.75% Term: 30 years

Repayment of principal and interest in monthly payments summarized by year is as follows:

Year Ended March 31	Interest	Principal	Total
2006	\$ 8,944	\$ 12,315	\$ 21,259
2007	9,266	13,924	23,190
2008	8,735	14,457	23,192
2009	8,183	15,007	23,190
2010	7,611	15,581	23,192
2011	7,017	16,175	23,192
2012	6,399	16,793	23,192
2013	5,759	17,431	23,190
2014	5,094	18,098	23,192
2015	4,403	18,789	23,192
2016	3,686	19,504	23,190
2017	2,942	20,250	23,192
2018	2,170	21,022	23,192
2019	1,368	21,824	23,192
2020	535	22,657	23,192
2021	7	1,929	1,936
TOTALS	\$ 82,119	\$ 265,756	\$ 347,875



Bruce A Rukkila, CPA, PC



310 Sheldon Avenue • Houghton MI 49931
(906) 482-6601 • Fax: (906) 482-9046
e-mail: help@brucerukkila.com
www.brucerukkila.com

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

Honorable President and Members of the Village Council
Village of Ontonagon
Ontonagon, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Ontonagon as of and for the year then ended March 31, 2008 which collectively comprise the Village's basic financial statements and have issued our report thereon dated September 25, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Village's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Village's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Village's financial statements is more than inconsequential and will not be prevented or detected by the Village's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2008-1 through 2008-4 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Village of Ontonagon's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses.

Compliance

As part of obtaining reasonable assurance about whether the Village's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as item 2008-1 through 2008-4.

We noted certain matters that we reported to management of the Village of Ontonagon in a separate letter dated September 25, 2008.

The Village of Ontonagon's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the Village of Ontonagon's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Council, others within the entity and is not intended to be and should not be used by anyone other than these specified parties.

Bruce A. Rukkala, CPA, PC

Certified Public Accountants

September 25, 2008

VILLAGE OF ONTONAGON
SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended March 31, 2008

2008-1 – Preparation of Financial Statements in Accordance with GAAP

Criteria: All entities are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of management. The preparation of financial statements in accordance with GAAP requires internal controls over both recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and reporting government-wide financial statements, including related footnotes.

Condition: As is the case with many small entities, the Village of Ontonagon has historically relied on its independent external auditors to assist in the preparation of the financial statements and footnotes as part of its external financial reporting process. Accordingly, the Village of Ontonagon's ability to prepare financial statements in accordance with GAAP is based, in part, on its external auditors, who cannot by definition be considered a part of the internal controls.

Cause: Due to the lack of knowledge, expertise and education relative to preparing GAAP financial statements possessed by the finance department, management has made the decision that it is in their best interest to out source the preparation of its annual financial statements to the auditors rather than incur the time and expense of obtaining the necessary training and expertise required for the Village of Ontonagon to perform this task internally.

Effect: As a result of this condition, the Village of Ontonagon lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

View of Responsible Officials: The Village of Ontonagon has evaluated the benefits of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the Village of Ontonagon to out source this task to its external auditors, and to carefully review the draft financials statements and notes prior to approving them and accepting responsibility for their content and presentation.

2008-2 – Capital Assets Records Maintained by the Auditor

Criteria: Purchases, additions, disposals, and sale of assets must have prior approval from the appropriate officials. In addition, the financial statements must accurately report all capital assets and accumulated depreciation along with capital expenditures and depreciation expense.

Condition: The Village has relied on its external auditor to maintain and update capital assets for the Village.

Cause: Due to the lack of knowledge, expertise and education relative to computing depreciation, management has made the decision that it is in their best interest to have their external auditor maintain capital assets and compute depreciation rather than incur the time and expense of obtaining the necessary training and expertise required for the Village to perform this task internally.

Effect: The Village has relied on external auditor to update capital asset listings for any new acquisitions or disposals and updating depreciation in conformity with policies set by the Village.

View of Responsible Officials: A copy of the capital asset information will be provided to the Village, which will allow the Village to assume this responsibility in the future.

VILLAGE OF ONTONAGON
SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended March 31, 2008

2008-3 - Segregation of Duties

Criteria: As stated in the *Accounting Procedures Manual for Local Units of Government in Michigan*, the functions of authorizations, record keeping, and custody of assets should be segregated where possible. Specifically, we would recommend that the Village consider some of the following procedures:

- ▶ Bank statements should be received by someone other than the clerk/treasurer, opened, inspected, and then provided to the clerk/treasurer to perform the reconciliation function; the reconciliation could subsequently be initialed by a second individual after it is complete.
- ▶ Bank wire transfers should be written and approved by a second individual.

Cause, Condition and Effect: Limited staff size creates instances in which conflicting duties are performed by one individual. The Village relies on its Clerk/Treasurer for its general ledger accounting functions.

View of Responsible Officials: The Village understands it needs to be aware of this situation and maintain oversight of its financial records.

2008-4 – Adjustments Proposed by the Auditor

Criteria: The Village is responsible for the reconciliation of all general ledger accounts for the purpose of creating a reasonably adjusted trial balance, from which the basic financial statements are derived.

Condition: Auditor identified journal entries were posted to the Village's financial records during the audit. The entries were needed to adjust year-end balances to be in conformity with generally accepted accounting principles.

Effect: We are pleased to assist in adjusting the Village's general ledger, but are also required to communicate our part in completing the Village's accounting records. A number of these journal entries are related to property taxes, intergovernmental activities, accounts payable, accounts receivable, and items required for the full-accrual presentation of the government-wide statements.

View of Responsible Officials: The Village will ensure all general ledger accounts and are reconciled on a timely basis with review and approval by the Manager.



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September 25, 2008

Honorable President and Members of the Village Council
Village of Ontonagon
Ontonagon, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Ontonagon for the year ended March 31, 2008, and have issued our report thereon dated September 25, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and *Government Auditing Standards*

As stated in our engagement letter dated July 29, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material aspects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we consider of internal control of the Village of Ontonagon. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed test of the Village of Ontonagon's compliance with certain provisions of laws, regulations, contracts and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Audit Findings

Qualitative Aspects of Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Village of Ontonagon are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended March 31, 2008. We noted no transactions entered into by the Village of Ontonagon during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements is management's estimate of the useful lives of fixed assets, used to calculate depreciation. We evaluated the key factors and assumptions used to develop the useful lives to determine that they are reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 25, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Village's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Village of Ontonagon's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Village of Ontonagon Board and is not intended to be and should not be used for any other purpose.

It has been a pleasure to provide audit services to the Village of Ontonagon. Management was prepared for the audit, providing us with all supporting documents requested. Management was friendly, conscientious and very helpful.

We appreciate your business, thank you.

Very truly yours,

Bruce A. Rukkila, CPA, PC
Certified Public Accountants

In planning and performing our audit of the financial statements of the Village of Ontonagon, as of and for the year ended March 31, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the Village of Ontonagon's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.

INTERNAL CONTROL COMMENTS AND RECOMMENDATIONS

2008-1 – Preparation of Financial Statements in Accordance with GAAP

Criteria: All entities are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of management. The preparation of financial statements in accordance with GAAP requires internal controls over both recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and reporting government-wide financial statements, including related footnotes.

Condition: As is the case with many small entities, the Village of Ontonagon has historically relied on its independent external auditors to assist in the preparation of the financial statements and footnotes as part of its external financial reporting process. Accordingly, the Village of Ontonagon's ability to prepare financial statements in accordance with GAAP is based, in part, on its external auditors, who cannot by definition be considered a part of the internal controls.

Cause: Due to the lack of knowledge, expertise and education relative to preparing GAAP financial statements possessed by the finance department, management has made the decision that it is in their best interest to out source the preparation of its annual financial statements to the auditors rather than incur the time and expense of obtaining the necessary training and expertise required for the Village of Ontonagon to perform this task internally.

Effect: As a result of this condition, the Village of Ontonagon lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

View of Responsible Officials: The Village of Ontonagon has evaluated the benefits of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the Village of Ontonagon to out source this task to its external auditors, and to carefully review the draft financials statements and notes prior to approving them and accepting responsibility for their content and presentation.

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Condition: The Village has relied on its external auditor to maintain and update capital assets for the Village.

Cause: Due to the lack of knowledge, expertise and education relative to computing depreciation, management has made the decision that it is in their best interest to have their external auditor maintain fixed assets and compute depreciation rather than incur the time and expense of obtaining the necessary training and expertise required for the Village to perform this task internally.

Effect: The Village has relied on external auditor to update fixed asset listings for any new acquisitions or disposals and updating depreciation in conformity with policies set by the Village.

View of Responsible Officials: A copy of the capital asset information will be provided to the Village, which will allow the Village to assume this responsibility in the future.

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Cause, Condition and Effect: Limited staff size creates instances in which conflicting duties are performed by one individual. The Village relies on its Clerk/Treasurer for its general ledger accounting functions.

View of Responsible Officials: The Village understands it needs to be aware of this situation and maintain oversight of its financial records.

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Criteria: The Village is responsible for the reconciliation of all general ledger accounts for the purpose of creating a reasonably adjusted trial balance, from which the basic financial statements are derived.

Condition: Auditor identified journal entries were posted to the Village's financial records during the audit. The entries were needed to adjust year-end balances to be in conformity with generally accepted accounting principles.

Effect: We are pleased to assist in adjusting the Village's general ledger, but are also required to communicate our part in completing the Village's accounting records. A number of these journal entries are related to property taxes, intergovernmental activities, accounts payable, accounts receivable, and items required for the full-accrual presentation of the government-wide statements.

View of Responsible Officials: The Village will ensure all general ledger accounts and are reconciled on a timely basis with review and approval by the Manager.

ADDITIONAL COMMENTS AND RECOMMENDATIONS

During our audit we became aware of opportunities for strengthening internal controls and operating efficiencies. The following items summarize our comments and suggestions regarding those matters.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with various personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Computer Backups

We suggest backups for all software programs be done, at the minimum, weekly and kept offsite. It's important that the Village maintain reliable systems that include appropriate data backup and recovery processes.

Budget Review

Michigan law prohibits spending amounts in excess of appropriations (budgeted amounts). As noted in our audit report, there were instances of spending amounts greater than budgeted.

We recommend that the Council carefully review its actual revenue and expenditures to budgeted amounts at least quarterly. Amendments to the budget should be made after reviewing all financial information.